

City of River Rouge, Michigan

**Financial Report
with Additional Information
June 30, 2007**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of River Rouge, Michigan	County Wayne
Fiscal Year End June 30, 2007	Opinion Date December 21, 2007	Date Audit Report Submitted to State December 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

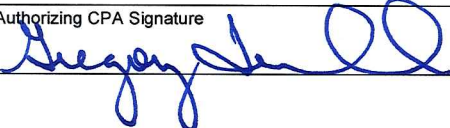
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☐ ☒ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Gregory Terrell & Company		Telephone Number 313-965-0500		
Street Address 535 Griswold, Suite 2000		City Detroit	State MI	Zip 48226
Authorizing CPA Signature 		Printed Name Gregory Terrell		License Number 1101010074

City of River Rouge, Michigan

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GREGORY
TERRELL
& COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor
and Members of the City Council,
City of River Rouge, Michigan

We have audited the accompanying general purpose financial statements of the City of River Rouge, Michigan (the "City") as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As further described in Note 1, the accompanying general purpose financial statements do not purport to present, and do not present, the financial position, results of operations and proprietary cash flows of the City in accordance with accounting principles generally accepted in the United States of America. The accompanying general purpose financial statements depart from generally accepted accounting principles due to the failure of the City to adopt new financial reporting and disclosure requirements.

In our opinion, because of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of River Rouge, Michigan as of June 30, 2007, or results of its operations or the cash flows of its proprietary fund for the year then ended.

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As described in Note 18 to the financial statements, the City has suffered recurring operating deficits in the General Fund and has a significant fund deficit in the General Fund that raises substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Note 18. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The Additional Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the City. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, as described in the fourth paragraph of this report, does not purport to be presented in all material respects in relation to the general purpose financial statements taken as a whole.



GREGORY TERRELL & COMPANY
Certified Public Accountants

December 21, 2007

City of River Rouge, Michigan

	Governmental Fund Types		Proprietary Fund Type
	General	Special Revenue	Enterprise - Water and Sewer
Assets			
Cash and cash equivalents (Note 2)	\$ 3,461,213	\$ 1,463,220	\$ 754,015
Marketable securities (Note 2)	-	-	-
Receivables:			
Taxes	736,145	-	196,503
Customers	-	-	1,777,054
Other	19,057	-	-
Accrued interest	-	-	-
Due from other governmental units	584,910	155,655	-
Due from other funds (Note 3)	183,457	-	-
Due from primary government	-	-	-
Prepaid expenditures and deposits	612,965	-	-
Real estate inventory (Note 1)	-	103,698	-
Restricted assets (Note 4)	-	-	5,398,220
Land, buildings, and equipment (Note 5)	-	-	41,145,603
Amount to be provided for retirement of general long-term debt	-	-	-
Total assets	<u>\$ 5,597,747</u>	<u>\$ 1,722,573</u>	<u>\$ 49,271,395</u>

Combined Balance Sheet
All Fund Types, Account Groups, and Component Units
June 30, 2007

Fiduciary Fund Types	Account Groups		Total Primary Government (Memorandum Only)	Component Units
Trust and Agency	General Fixed Assets	General Long-term Debt		
\$ 2,388,075	\$ -	\$ -	\$ 8,066,523	\$ 345,271
37,926,131	-	-	37,926,131	-
-	-	-	932,648	-
-	-	-	1,777,054	-
27,245	-	-	46,302	29,396
71,803	-	-	71,803	-
-	-	-	740,565	-
-	-	-	183,457	-
-	-	-	-	2,829
-	-	-	612,965	-
-	-	-	103,698	-
-	-	-	5,398,220	-
-	15,286,651	-	56,432,254	-
-	-	10,136,232	10,136,232	83,017
<u>\$ 40,413,254</u>	<u>\$ 15,286,651</u>	<u>\$ 10,136,232</u>	<u>\$ 122,427,852</u>	<u>\$ 460,513</u>

City of River Rouge, Michigan

	Governmental Fund Types		Proprietary Fund Type
	General	Special Revenue	Enterprise - Water and Sewer
Liabilities and Fund Equity (Deficit)			
Liabilities			
Vouchers payable	\$ 1,505,914	\$ 254,637	\$ 1,011,799
Due to broker for pending transactions	-	-	-
Due to other governmental units	5,055,736	-	-
Due to other funds (Note 3)	-	124,619	-
Due to component units	2,829	-	-
Accrued and other liabilities	948,405	-	256,756
Deferred revenue	20,117	92,603	-
Long-term debt (Note 6)	-	-	17,402,851
Total liabilities	7,533,001	471,859	18,671,406
Fund Equity (Deficit)			
Investment in general fixed assets	-	-	-
Contributed capital (Note 14)	-	-	12,833,855
Retained earnings reserved for debt service	-	-	567,509
Retained earnings - Unreserved	-	-	17,198,625
Fund balances (deficit):			
Reserved (Note 15)	662,121	-	-
Unreserved - Undesignated	(2,597,375)	1,250,714	-
Total fund equity (deficit)	(1,935,254)	1,250,714	30,599,989
Total liabilities and fund equity (deficit)	<u>\$ 5,597,747</u>	<u>\$ 1,722,573</u>	<u>\$ 49,271,395</u>

Combined Balance Sheet
All Fund Types, Account Groups, and Component Units (Continued)
June 30, 2007

Fiduciary Fund Types	Account Groups		Total Primary Government (Memorandum Only)	Component Units
Trust and Agency	General Fixed Assets	General Long-term Debt		
\$ 3,082	\$ -	\$ -	\$ 2,775,432	\$ 165
302,511	-	-	302,511	-
23,174	-	-	5,078,910	-
58,838	-	-	183,457	-
-	-	-	2,829	-
60,011	-	-	1,265,172	13,033
-	-	-	112,720	-
-	-	10,136,232	27,539,083	83,017
447,616	-	10,136,232	37,260,114	96,215
-	15,286,651	-	15,286,651	-
-	-	-	12,833,855	-
-	-	-	567,509	-
-	-	-	17,198,625	-
39,965,638	-	-	40,627,759	6,937
-	-	-	(1,346,661)	357,361
39,965,638	15,286,651	-	85,167,738	364,298
<u>\$ 40,413,254</u>	<u>\$ 15,286,651</u>	<u>\$ 10,136,232</u>	<u>\$ 122,427,852</u>	<u>\$ 460,513</u>

City of River Rouge, Michigan

Combined Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) All Governmental Fund Types and Component Units Year Ended June 30, 2007

	General Fund	Special Revenue Funds	Total Primary Government (Memorandum Only)	Component Units
Revenue				
Property taxes	\$ 8,760,929	\$ 2,403,636	\$ 11,164,565	\$ 27,097
Licenses and permits	579,796	-	579,796	-
Federal sources	141,568	588,511	730,079	-
State sources	1,506,482	540,227	2,046,709	-
Charges for services	357,426	-	357,426	-
Fines and forfeitures	534,875	-	534,875	-
Interest	298,958	58,247	357,205	10,076
Other	144,997	171,886	316,883	255,802
Total revenue	12,325,031	3,762,507	16,087,538	292,975
Expenditures				
General government	2,416,279	-	2,416,279	-
Public safety	3,177,860	1,185,872	4,363,732	-
Public services	531,980	904,170	1,436,150	-
Street lighting	248,516	-	248,516	-
Culture and recreation	263,138	252,341	515,479	-
Drug enforcement	-	111,159	111,159	-
Highway and streets	-	599,685	599,685	-
Economic and community development	-	550,757	550,757	386,924
Other functions	5,140,908	-	5,140,908	-
Debt service	430,798	-	430,798	14,445
Total expenditures	12,209,479	3,603,984	15,813,463	401,369
Excess of Revenue Over (Under) Expenditures	115,552	158,523	274,075	(108,394)
Other Financing Sources (Uses)				
Proceeds from issuance of long-term debt	206,318	-	206,318	90,000
Operating transfers in	7,793	47,932	55,725	-
Operating transfers out	(2,977)	(52,748)	(55,725)	-
Operating transfers from primary government	-	-	-	50,843
Operating transfers to component unit	(50,843)	-	(50,843)	-
Total other financing sources (uses)	160,291	(4,816)	155,475	140,843
Net Change in Fund Balances (Deficit)	275,843	153,707	429,550	32,449
Fund Balances (Deficit) - July 1, 2006	(2,211,097)	1,097,007	(1,114,090)	331,849
Fund Balances (Deficit) - June 30, 2007	<u>\$(1,935,254)</u>	<u>\$ 1,250,714</u>	<u>\$ (684,540)</u>	<u>\$ 364,298</u>

City of River Rouge, Michigan

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Property taxes	\$ 8,643,193	\$ 8,760,929	\$ 117,736
Licenses and permits	547,003	579,796	32,793
Federal sources	134,100	141,568	7,468
State sources	1,535,346	1,506,482	(28,864)
Charges for services	381,200	357,426	(23,774)
Fines and forfeitures	425,000	534,875	109,875
Interest	276,000	298,958	22,958
Other revenue	154,974	144,997	(9,977)
Proceeds from issuance of long-term debt	-	206,318	206,318
Transfers from other funds	221,955	257,068	35,113
Total revenue	12,318,771	12,788,417	469,646
Expenditures			
General government	2,083,976	2,416,279	(332,303)
Public safety	2,992,705	3,177,860	(185,155)
Public services	724,278	781,255	(56,977)
Street lighting	250,000	248,516	1,484
Culture and recreation	250,170	263,138	(12,968)
Drug enforcement	-	-	-
Highways and streets	-	-	-
Community development	-	-	-
Other functions	5,539,997	5,140,908	399,089
Debt service	425,830	430,798	(4,968)
Transfers to other funds	977	2,977	(2,000)
Transfers to component units	50,838	50,843	(5)
Total expenditures	12,318,771	12,512,574	(193,803)
Excess of Revenue Over Expenditures	-	275,843	275,843
Fund Balances (Deficit) - July 1, 2006	(2,211,097)	(2,211,097)	-
Fund Balances (Deficit) - June 30, 2007	<u>\$ (2,211,097)</u>	<u>\$ (1,935,254)</u>	<u>\$ 275,843</u>

**Combined Statement of Revenue, Expenditures, and
Changes in Fund Balances (Deficit) - Budget and Actual
General and Special Revenue Fund Types
Year Ended June 30, 2007**

Special Revenue Funds		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 2,425,522	\$ 2,403,636	\$ (21,886)
-	-	-
599,670	588,511	(11,159)
576,200	540,227	(35,973)
-	-	-
-	-	-
37,400	58,247	20,847
178,921	171,886	(7,035)
-	-	-
100,502	47,932	(52,570)
3,918,215	3,810,439	(107,776)
-	-	-
1,185,872	1,185,872	-
1,057,750	904,170	153,580
-	-	-
253,400	252,341	1,059
132,287	111,159	21,128
591,600	599,685	(8,085)
508,701	550,757	(42,056)
-	-	-
-	-	-
107,318	52,748	54,570
-	-	-
3,836,928	3,656,732	180,196
81,287	153,707	72,420
1,097,007	1,097,007	-
\$ 1,178,294	\$ 1,250,714	\$ 72,420

City of River Rouge, Michigan

Combined Statement of Revenue, Expenses, and Changes in Retained Earnings - Enterprise Fund Water and Sewer Year Ended June 30, 2007

Operating Revenue - Customer billings	\$ 3,267,710
Operating Expenses	
Cost of water	485,451
Cost of sewage disposal	487,360
Water operations	388,316
Sewer operations	1,560,655
Depreciation	<u>942,814</u>
Total operating expenses	<u>3,864,596</u>
Operating Loss	(596,886)
Nonoperating Income (Expenses)	
Property taxes	2,179,700
Investment income	188,902
Interest expense	<u>(737,052)</u>
Total nonoperating income	<u>1,631,550</u>
Net Income	1,034,664
Retained Earnings - July 1, 2006	16,450,697
Add Depreciation on Contributed Capital	<u>280,773</u>
Retained Earnings - June 30, 2007	<u><u>\$ 17,766,134</u></u>

City of River Rouge, Michigan

Statement of Cash Flows Enterprise Fund - Water and Sewer Year Ended June 30, 2007

Cash Flows from Operating Activities

Operating loss	\$ (596,886)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	942,814
Changes in assets and liabilities:	
Customer receivables	221,819
Accounts payable	(66,207)
Accrued and other liabilities	23,697
Net cash provided by operating activities	525,237

Cash Flows from Investing Activities - Interest income 15,678

Cash Flows from Noncapital Financing Activities - Loan repayments to other funds 41,035

Cash Flows from Capital and Related Financing Activities

Principal and interest paid on long-term debt	(648)
Proceeds from property tax levy	2,103,801
Replenishment of reserves held at Wayne County	(1,931,088)
Net cash provided by capital and related financing activities	172,065

Net Change in Cash and Cash Equivalents 754,015

Cash and Cash Equivalents - July 1, 2006 -

Cash and Cash Equivalents - June 30, 2007 \$ 754,015

Noncash Investing, Capital, and Financing Activities

- The County used approximately \$4,000 of restricted assets toward additions to fixed assets.
- The County paid approximately \$1,934,000 of bond and state revolving loan principal and interest payments related to the Downriver Sewage Improvement Project and the CSO Basin Sewer Line Improvement Project.
- Interest earned during the year on assets held at Wayne County related to both projects was approximately \$173,000.

City of River Rouge, Michigan

Statement of Changes in Plan Net Assets Pension Trust Funds Year Ended June 30, 2007

Additions

Investment income:	
Interest and dividends	\$ 1,047,115
Net appreciation in fair value of investments	5,308,778
Other	<u>3,883</u>
Net investment income	6,359,776
Contributions:	
Employer	1,822,443
Employees	<u>240,866</u>
Total additions	8,423,085

Deductions

Benefit payments	5,316,126
Administrative expenses	<u>471,000</u>
Total deductions	<u>5,787,126</u>

Net Increase in Net Assets Held in Trust for Pension Benefits 2,635,959

Net Assets Held in Trust for Pension Benefits

Beginning of year	<u>37,329,679</u>
End of year	<u><u>\$ 39,965,638</u></u>

City of River Rouge, Michigan

Combining Balance Sheet Component Units June 30, 2007

	Economic Development Corporation	Downtown Development Authority	Total
Assets			
Cash and cash equivalents (Note 2)	\$ 221,310	\$ 123,961	\$ 345,271
Loans receivable	9,701	-	9,701
Land contracts receivable	19,695	-	19,695
Due from primary government	2,829	-	2,829
Amount to be provided for long-term debt	83,017	-	83,017
Total assets	<u><u>\$ 336,552</u></u>	<u><u>\$ 123,961</u></u>	<u><u>\$ 460,513</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ 165	\$ 165
Security deposits	13,033	-	13,033
Long-term debt (Note 6)	83,017	-	83,017
Total liabilities	96,050	165	96,215
Fund Balances			
Reserved (Note 15)	6,937	-	6,937
Unreserved - Undesignated	233,565	123,796	357,361
Total fund balances	240,502	123,796	364,298
Total liabilities and fund balances	<u><u>\$ 336,552</u></u>	<u><u>\$ 123,961</u></u>	<u><u>\$ 460,513</u></u>

City of River Rouge, Michigan

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Component Units Year Ended June 30, 2007

	Economic Development Corporation	Downtown Development Authority	Total
Revenue			
Property taxes	\$ -	\$ 27,097	\$ 27,097
Rental income - Building	210,305	-	210,305
Rental income - Tower	33,924	-	33,924
Interest	5,751	4,325	10,076
Other	11,573	-	11,573
Total revenue	261,553	31,422	292,975
Expenditures			
Project and other expenses	146,331	165	146,496
Rental property expenses	240,428	-	240,428
Debt service	14,445	-	14,445
Total expenditures	401,204	165	401,369
Excess of Revenue Over (Under) Expenditures	(139,651)	31,257	(108,394)
Other Financing Sources			
Proceeds from issuance of long-term debt	90,000	-	90,000
Operating transfers from primary government	50,843	-	50,843
Total other financing sources	140,843	-	140,843
Net Change in Fund Balances	1,192	31,257	32,449
Fund Balances - July 1, 2006	239,310	92,539	331,849
Fund Balances - June 30, 2007	<u>\$ 240,502</u>	<u>\$ 123,796</u>	<u>\$ 364,298</u>

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of River Rouge, Michigan (the "City") do not conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The City has not modified its financial reporting to adopt Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. As such, the general purpose financial statements exclude the management's discussion and analysis, government-wide statement of net assets, and government-wide statement of activities. Furthermore, the City has not followed the formatting of separately reporting its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. The City has continued to report information by fund type and account group; the General Fixed Assets Account Group excludes general infrastructure assets and accumulated depreciation on general fixed assets.

In addition, the City does not maintain information necessary to make the disclosures required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. As a result, the City continues to disclose information about its deposits and investments in accordance with GASB Statement No. 3, which was substantially revised by Statement No. 40.

The following is a summary of the significant accounting policies:

Reporting Entity

The City is governed by an elected mayor and a six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of River Rouge and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational and financial relationship with the City.

The Policemen and Firemen and General Employees' Retirement Systems have been blended into the City's financial statements. The systems are governed by five-member pension boards that include three individuals chosen by the mayor and City Council. The systems are reported as if part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement systems. Additionally, the 26th District Court Division I Agency Fund has also been blended into the City's financial statements.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units

The following entities are reported within the component unit column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

The Economic Development Corporation (the EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's governing body, which consists of nine individuals, is selected by the City Council. A complete financial report can be obtained by contacting the city clerk at 10600 W. Jefferson Avenue, River Rouge, Michigan 48218.

The Downtown Development Authority (the DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of 11 individuals, is appointed by the mayor with the approval of the City Council. In addition, the DDA's budget is subject to approval by the City Council. A separate financial report for the DDA is not available.

The City has excluded the Housing Commission from this report as a component unit because the City does not exercise substantial oversight responsibility. The Housing Commission's financial statements have been issued under separate cover. The Housing Commission reimburses the City for healthcare coverage. The Housing Commission has outstanding liabilities to the General Fund in the amount of \$35,985 for healthcare reimbursement.

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in three broad fund categories as follows:

Governmental Funds

General Fund - The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

Note 1 - Summary of Significant Accounting Policies (Continued)

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Proprietary Fund

Enterprise Fund - The Enterprise Fund is used to account for the results of operations that provide a service to citizens that are financed primarily by a user charge for the provision of that service.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. These include the Pension Retirement Systems Funds and the Agency Fund. The Pension Retirement Systems Funds are accounted for in the same manner as proprietary funds. The 26th District Court Division I Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Basis of Accounting

The accrual basis of accounting is used by the Enterprise Fund and the Pension Retirement Systems Funds. All governmental funds and the component units utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations of the City are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31 and the related property taxes are billed and become a lien on July 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

- b. Noncurrent receivables, such as long-term loans, are recorded at full value and fund balance is reserved for the portion not available for use to finance operations as of year end.
- c. Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.

Note I - Summary of Significant Accounting Policies (Continued)

- d. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- e. Normally, expenditures are not divided between years by the recording of prepaid expenses. The prepaid expenses recorded in the General Fund represent advance payments on various insurance policies.
- f. The noncurrent portion of accumulated sick and vacation days, unemployment, and self-insured liabilities is reflected in the General Long-term Debt Account Group.

Fixed Assets and Long-term Liabilities - Fixed assets used in governmental fund-type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as lighting systems. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-term Debt Account Group are not funds and do not involve the measurement of results of operations.

Fixed assets and long-term liabilities relating to the Enterprise Fund are accounted for in that fund. Depreciation on such fixed assets is charged as an expense against the operations of the Enterprise Fund on a straight-line basis.

Cash Equivalents - For the purpose of the statement of cash flows, the Proprietary Fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments and Marketable Securities - Investments are reported at fair value, based on quoted market prices.

Real Estate Inventory - Real estate inventory in the Grant Special Revenue Fund is held for resale and is valued at the lower of cost or market.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Significant Customers - The City has two significant customers, U.S. Steel Corporation and Detroit Edison Company that, when combined, represented approximately 53 percent of property tax revenue and 40 percent of water and sewage disposal revenue for the year ended June 30, 2007.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the noted amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Memorandum-only Totals - The total data presented is the aggregate of the fund types and account groups and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to financial statements.

Note 2 - Deposits and Investments

The City's deposits and investments at June 30, 2007 are included on the balance sheet under the following classifications:

GASB Category 3	Balance Sheet Classification	
	Cash and Cash Equivalents	Marketable Securities
Deposits:		
General Fund	\$ 3,461,213	\$ -
Special Revenue Funds	1,463,220	-
Enterprise Fund	754,015	-
General Employees' Retirement System	460,629	-
Police and Fire Retirement System	1,785,423	-
Agency Fund	142,023	-
Investments	-	37,926,131
Total	<u>\$ 8,066,523</u>	<u>\$ 37,926,131</u>

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 2 - Deposits and Investments (Continued)

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$8,332,000. Of that amount, approximately \$619,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The City is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

The General Employees' Retirement System and Policemen and Firemen Retirement System are authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain foreign and domestic state and local government obligations, and certain other specified investment vehicles.

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2007. Risk Category 1 includes those investments that meet any of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the City's name

All investments held by the City at June 30, 2007 are Category 2.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 2 - Deposits and Investments (Continued)

	Carrying Amount (Fair Value)
General Employees' Retirement System:	
U.S. government securities	\$ 2,223,313
Common stock	7,937,453
Corporate bonds	514,056
Policemen and Firemen Retirement System:	
U.S. government bonds	1,579,485
Common stock	20,782,058
Preferred stock	495,809
Corporate bonds	3,294,266
Foreign equities	17,388
Foreign bonds	259,350
Mortgage and asset-backed securities	822,953
Total	<u>\$ 37,926,131</u>

Included in the City's retirement systems' investments at June 30, 2007 are approximately \$3,046,000 of collateralized mortgage obligations. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Component Units - The cash of the City's component units consists solely of bank deposits. The deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$221,310. Of that amount, approximately \$136,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Interfund Receivables

The following are the interfund receivables at June 30, 2007:

Receivable Fund	Payable Fund	
General Fund	Special Revenue Funds:	
	District Court - Agency Fund	\$ 58,838
	Local Street Fund	6,618
	Community Development Block Grant Fund	<u>118,001</u>
	Total interfund receivables	<u>\$ 183,457</u>

Note 4 - Restricted Assets

Restricted assets at June 30, 2007 consist of assets totaling \$5,398,220 held at Wayne County for water and sewer line construction. The assets resulted from issuance of debt. Accordingly, retained earnings have not been reserved.

Note 5 - Capital Assets

A summary of changes in general fixed assets follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Land and improvements	\$ 3,020,084	\$ -	\$ -	\$ 3,020,084
Buildings and structures	5,154,263	-	-	5,154,263
Pavement	2,489,212	-	-	2,489,212
Equipment	<u>4,078,773</u>	<u>544,319</u>	<u>-</u>	<u>4,623,092</u>
Total general fixed assets	<u>\$ 14,742,332</u>	<u>\$ 544,319</u>	<u>\$ -</u>	<u>\$ 15,286,651</u>

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

A summary of Enterprise Fund fixed assets at June 30, 2007 is as follows:

	Amount	Depreciable Life - Years
Land	\$ 150,378	-
Construction in progress	238,000	-
Water and sewer mains and basins	47,671,740	50
Pumping station	1,530,802	3-50
Equipment and meters	1,012,098	5-15
Vehicles	355,877	4
Total cost	50,958,895	
Less accumulated depreciation	(9,813,292)	
Net carrying amount	<u>\$41,145,603</u>	

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the City at June 30, 2007:

	Number of Issues	Interest Rate	Maturing Through	Principal Outstanding	
				Enterprise Fund	Long-term Debt
State Revolving Fund Loan - Downriver	13	1.625%-2.25%	2021	\$ 2,731,720	\$ -
Downriver Sewage Disposal System Bonds - Series A	1	7.00%	2013	73,000	-
State Revolving Fund - Loan - CSO	1	2.25%	2018	3,748,131	-
Wayne County CSO Revenue Bonds	1	5.295%-5.375%	2017	10,850,000	-
Compensated absences (1)	-	-	-	-	1,024,538
Lawsuits and asserted claims (2)	-	-	-	-	382,000
Net pension obligation (3)	-	-	-	-	2,252,141
Installment purchase agreements	2	5.03% - 5.75%	-	-	202,553
Fiscal stabilization bonds (4)	1	2.00% - 5.00%	2032	-	6,275,000
Total long-term debt				<u>\$ 17,402,851</u>	<u>\$ 10,136,232</u>

(1) The accumulated employee benefits represent the estimated liability to be paid governmental fund-type employees under the City's sick and vacation pay policy, net of the portion that is estimated will be paid currently (which has been recorded as a liability in the General Fund). Under the City's policy, employees earn sick and vacation time based on time of service with the City.

(2) The lawsuits and asserted claims represent an estimate by City management and legal counsel of the City's probable liability as of June 30, 2007, in connection with certain lawsuits currently pending.

(3) The net pension obligation represents the net present value of required pension contributions payable to the City's defined benefit pension plans.

(4) Pursuant to the terms and conditions of the fiscal stabilization bonds, the City's future state-shared revenue has been pledged in connection with this obligation.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of debt transactions of the City for the year ended June 30, 2007:

	General Obligations	Revenue Bonds	Total
Balance - July 1, 2006	\$ 16,193,936	\$ 11,570,000	\$ 27,763,936
Increase in net pension obligation	802,143	-	802,143
New debt:			
Downriver Sewage Disposal SRF Bond #5217-01	-	4,000	4,000
Installment purchase contract - Tractors	51,707	-	51,707
Installment purchase contract - Fire rescue vehicle	154,611	-	154,611
Increase in lawsuits and asserted claims	69,000	-	69,000
Increase in compensated absences and claims	19,238	-	19,238
Debt retired	(605,552)	(720,000)	(1,325,552)
Balance - June 30, 2007	<u>\$ 16,685,083</u>	<u>\$ 10,854,000</u>	<u>\$ 27,539,083</u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2007 (excluding compensated absences, lawsuits, and asserted claims), including both principal and interest, are as follows:

Years Ending June 30	Debt Serviced Through		
	Governmental		Total
	Fund Resources	Proprietary Fund	
2008	\$ 482,190	\$ 1,944,801	\$ 2,426,991
2009	483,124	1,944,859	2,427,983
2010	478,630	1,946,403	2,425,033
2011	478,685	1,940,176	2,418,861
2012	430,424	1,941,021	2,371,445
Remaining years	<u>8,876,044</u>	<u>12,162,414</u>	<u>21,038,458</u>
Total	<u>\$ 11,229,097</u>	<u>\$ 21,879,674</u>	<u>\$ 33,108,771</u>

Interest

Total interest incurred for the City for the year approximated \$1,029,000.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Long-term Debt (Continued)

No Commitment Debt

Excluded from the General Long-term Debt Account Group are bonds issued under the Industrial Development Revenue Bond Act of 1963, as amended, which authorizes municipalities to acquire and lease industrial sites, buildings, and equipment. Under terms of the leases, the lessees are required to make payments to the bond-paying agents equal to the bond principal and interest payments as they come due. These bonds are not a liability of the City since they are payable solely from the net revenue derived from the respective leases. After these bonds are issued, all financial activity is taken over by the paying agent.

The bonds and related lease contracts are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

Component Unit

Outstanding Debt

The following is a summary of the debt outstanding of the Economic Development Corporation of the City of River Rouge at June 30, 2007:

	Balance		Debt	Balance
General Obligation Debt	July 1, 2006	Additions	Retired	June 30, 2007
Note payable, issued in the amount of \$90,000. Payments of \$926, including interest at 7.00 percent, are due monthly with a final balloon payment due on December 19, 2012	\$ -	\$ 90,000	\$ (6,983)	\$ 83,017

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Long-term Debt (Continued)

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2007, including both principal and interest, are as follows:

Years Ending June 30	Amount
2008	\$ 11,112
2009	11,112
2010	11,112
2011	11,112
2012	<u>61,273</u>
Total	<u>\$ 105,721</u>

Interest

Total interest incurred for the Economic Development Corporation for the year approximated \$3,000.

Note 7 - Budget Information

The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers and proceeds from the issuance of long-term debt have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction to expenditures.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Budget Information (Continued)

The budget statement (combined statement of revenue, expenditures, and changes in fund balances (deficit) - budget and actual - General and Special Revenue Fund types) is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budget statement to the operating statement (combined statement of revenue, expenditures, and changes in fund balances (deficit) - all governmental fund types and component units):

	General Fund		Special Revenue Funds	
	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 12,325,031	\$ 12,209,479	\$ 3,762,507	\$ 3,603,984
Proceeds from long-term debt	206,318	-	-	-
Operating transfers	7,793	53,820	47,932	52,748
Reimbursements from other funds recorded as revenue	249,275	249,275	-	-
Amounts per budget statement	<u>\$ 12,788,417</u>	<u>\$ 12,512,574</u>	<u>\$ 3,810,439</u>	<u>\$ 3,656,732</u>

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of the General Fund expenditure budget as adopted by the City Council is included in the additional information and a comparison of actual results of the General Fund revenue budget is included in the general purpose financial statements. This comparison includes expenditure budget overruns. A comparison of actual results of operations to the Special Revenue Funds budget as adopted by the City Council is available at the clerk's office for inspection.

An overview of significant expenditure budget overruns is as follows:

	Budget	Actual
General Fund:		
General government	\$ 2,083,976	\$ 2,416,279
Public safety	2,992,705	3,177,860
Public services	724,278	781,255
Culture and recreation	250,170	263,138
Special Revenue Funds:		
Highways and streets	591,600	599,685
Community development	508,701	550,757

Note 7 - Budget Information (Continued)

At June 30, 2007, the General Fund had a fund deficit of \$1,935,254. See Note 18 related to going concern.

At June 30, 2007, the Grant Fund had a deficit of \$66,260. The deficit is the result of deferring federal grant revenue, for which grant reimbursements were not received within 60 days of year end. The deficit will be eliminated through the receipt of reimbursement requests subsequent to year end.

Note 8 - Pension Plan

General Employees' Pension Plan

Plan Description - The General Employees' Pension Plan is a single-employer defined benefit pension plan that is administered by the City of River Rouge General Employees' Retirement System (the "System"); this plan covers most full-time general employees of the City hired prior to January 1, 1999. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2005, the date of the most recent actuarial valuation, membership consisted of 108 retirees and beneficiaries currently receiving benefits, one terminated employee entitled to benefits but not yet receiving them, and 59 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. State law requires that the City fund its pension annually. Due to the City's financial condition, it was unable to make the required contributions for the year ended June 30, 2007. Subsequent to year end, the pension board obtained a court order against the City to recoup the unpaid contributions. The net present value of unpaid pension obligation has been recorded in the City's General Long-term Debt Account Group at June 30, 2007.

Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 3 percent for General and Housing Local 1917 and 6.3 percent for all others. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2007, the City's annual pension cost was \$1,279,969. The City's actual contribution of \$91,789 was 7.17 percent of the required contribution. The net pension obligation of the City is calculated as follows:

Annual required contribution	\$ 1,279,969
Contributions made	<u>(916,891)</u>
Change in net pension obligation	363,078
Net pension obligation - Beginning of year	<u>825,102</u>
Net pension obligation - End of year	<u><u>\$ 1,188,180</u></u>

The annual required contribution was determined as part of an actuarial valuation at June 30, 2005 using the individual entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 0 percent per year, and (c) 5.7 percent to 9.5 percent additional projected salary increases depending on age and seniority/merit. Both (a) and (b) include an inflation component of 5.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level dollar on a closed basis. The remaining amortization period is 19 years.

Reserves - As of June 30, 2007, the plan had employee reserves of \$1,309,459.

Trend Information

	Fiscal Year Ended June 30		
	2005	2006	2007
Annual pension cost (APC)	\$ 878,622	\$ 1,037,700	\$ 1,279,969
Percent of APC contributed	8.43%	20.49%	7.17%
Net pension obligation	\$ 804,590	\$ 825,102	\$ 1,188,180

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Pension Plan (Continued)

Policemen and Firemen Retirement System

Plan Description - The Policemen and Firemen Retirement System is a single-employer defined benefit pension plan that is administered by the City of River Rouge Policemen and Firemen Retirement System; this plan covers certain police and fire employees of the City hired prior to January 1, 1999. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2005, the date of the most recent actuarial valuation, membership consisted of 91 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 39 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. State law requires that the City fund its pension annually. Due to the City's financial condition, it was unable to make the required contributions for the year ended June 30, 2007. Subsequent to year end, the pension board obtained a court order against the City to recoup the unpaid contributions. The net present value of unpaid pension obligation has been recorded in the City's General Long-term Debt Account Group at June 30, 2007.

Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost - For the year ended June 30, 2007, the City's annual pension cost was \$1,259,487. The City's actual contribution of \$195,526 was 15.52 percent of the required contribution. The net pension obligation of the City is calculated as follows:

Annual required contribution	\$ 1,259,487
Contributions made	<u>(820,422)</u>
Change in net pension obligation	439,065
Net pension obligation - Beginning of year	<u>624,896</u>
Net pension obligation - End of year	<u><u>\$ 1,063,961</u></u>

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Pension Plan (Continued)

The annual required contribution was determined as part of an actuarial valuation at June 30, 2005, using the aggregate cost method. Significant actuarial assumptions include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 4.7 percent to 8.5 percent additional projected salary increases depending on age and seniority/merit. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period.

Reserves - As of June 30, 2007, the plan had employee reserves of \$1,562,850.

Trend Information

	Fiscal Year Ended June 30		
	2005	2006	2007
Annual pension cost (APC)	\$ 793,154	\$ 1,081,333	\$ 1,259,487
Percent of APC contributed	24.14%	42.21%	15.52%
Net pension obligation	\$ 601,703	\$ 624,896	\$ 1,063,961

Note 9 - Defined Contribution Pension Plan

The City provides pension benefits to its full-time employees and elected officials through a defined contribution pension plan under Section 401(a) of the Internal Revenue Code. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council through collective bargaining agreements, the City contributes 9 percent of the employees' gross earnings and employee contributions for each employee plus interest allocated to the employees' account are immediately vested.

The City's total payroll during the current year was approximately \$5,323,000. The current year contribution was calculated based on covered payroll of \$694,044, resulting in an employer contribution of \$62,464 and employee contributions of \$34,702.

Note 10 - Postemployment Benefits

The City provides healthcare benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 199 retirees or surviving spouses are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. During the year ended June 30, 2007, the amount paid for postemployment healthcare benefits approximated \$850,500.

Note 11 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City purchased commercial insurance for property loss claims and participated in the Michigan Municipal League (risk pool) for claims relating to workers' compensation claims prior to June 30, 1991. The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City was uninsured for hospitalization, general liability, and workers' compensation claims for the period from June 30, 1991 to December 1, 1995. From December 1, 1995 through December 1, 2001, the City participated in the Michigan Municipal League for workers' compensation, general liability, and property loss. Effective December 1, 2001, only workers' compensation is covered by the League.

On December 1, 2001, the City joined the Michigan Municipal Risk Management Authority for general liability and property loss coverage. This risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City estimates the liability for hospitalization, workers' compensation, and general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Risk Management (Continued)

These estimates are recorded in the General Long-term Debt Account Group and the General Fund. Changes in the estimated liability were as follows:

	<u>Hospitalization</u>	<u>General Liability</u>
Estimated liability - July 1, 2005	\$ 376,250	\$ 335,000
Estimated claims incurred - Including changes in estimates	1,766,018	73,256
Claim payments	<u>(1,842,268)</u>	<u>(95,256)</u>
Estimated liability - June 30, 2006	300,000	313,000
Estimated claims incurred - Including changes in estimates	2,712,529	194,386
Claim payments	<u>(2,577,529)</u>	<u>(125,386)</u>
Estimated liability - June 30, 2007	<u>\$ 435,000</u>	<u>\$ 382,000</u>

These liabilities are recorded in the fund and account group as follows:

	<u>Hospitalization</u>	<u>General Liability</u>
General Fund	\$ 435,000	\$ -
General Long-term Debt Account Group	<u>-</u>	<u>382,000</u>
Total	<u>\$ 435,000</u>	<u>\$ 382,000</u>

Note 12 - Contingencies

Lawsuits and Asserted Claims

The City is a defendant in several lawsuits and asserted claims. A provision of \$382,000 has been made in the General Long-term Debt Account Group for the estimated liability for certain of these lawsuits (see Note 11). Management and legal counsel believe the City's ultimate exposure with respect to the remaining actions is not determinable. No provision has been made in the accompanying financial statements for potential liabilities, if any, which may arise from these remaining suits and asserted claims.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 12 - Contingencies (Continued)

Property Tax Appeal

In March 2002, the City's largest taxpayer, National Steel - Great Lakes Division, filed Chapter 11 bankruptcy and was ultimately sold in 2002 to U.S. Steel Corporation. U.S. Steel Corporation has filed a petition with the tax tribunal requesting a reduction in its assessed and taxable valuation for the December 2002 through 2006 tax years (affecting the City's July 2003 through June 2007 fiscal years) based on the purchase price paid in the bankruptcy sale. U.S. Steel Corporation is requesting a reduction of approximately 60 percent from the value set by the City. The City believes its valuation is correct and is fighting the appeal.

If U.S. Steel Corporation is successful, the City would have refund obligations as follows:

	Annual Refund Contingency	
	Retroactive to Fiscal Year	
	2005	2006
Operating levies:		
General Fund	\$ 1,150,000	\$ -
EDC	8,600	-
Refuse	173,000	-
Library	35,000	-
Special assessment	356,000	-
Judgment levies:		
Enterprise Fund	363,000	-
General Fund	-	273,000

The case was heard before the Michigan Tax Tribunal during fall 2006 with a final decision due in early 2008. No amounts have been recorded in the financial statements at June 30, 2007.

Note 12 - Contingencies (Continued)

Special Assessment Litigation

On December 4, 2007 (subsequent to year end), the City Council directed the city attorney to enter into an agreement to settle litigation stemming from a court case filed in 2004 related to a special assessment district. The City Council authorized a refund of \$1,200,000 of special assessments collected from 2005 to 2007. The refund will be in the form of tax credits which would total \$200,000 per year for the next six years. There is no provision for interest. As of the date of this report, no formal agreement has been signed and the case remains open.

Note 13 - Commitment

In connection with the ongoing replacement project for the downriver sewer system, the County issued completion bonds in August 2007 and is anticipating issuing additional bonds in the next two years. The City's share of the bonds issued in August 2007 is \$586,816; the City's share of the additional bonds will be approximately \$190,000.

In August 1995, the City contracted with Wayne County to manage all aspects of the construction of a CSO basin. The agreement called for the City to turn over all bond, grant, and State Revolving Fund Loan proceeds to the County sufficient to cover all costs. During 2002, the City was notified by Wayne County that all funds originally remitted by the City had been disbursed and approximately \$6,000,000 in additional funds would be needed to complete the City's requirements under the original court order noted above. In July 2003, the City reached a settlement agreement with Wayne County. In the settlement agreement, Wayne County agreed to provide the City with several grants to offset the costs of the remaining projects. The two remaining items that remain unresolved in the original court order are as follows:

- I. A 60-inch relief sewer at the Coolidge viaduct was required under the original order. Wayne County, as the project manager, determined this sewer was not necessary. The Michigan Department of Environmental Quality (MDEQ) has determined this sewer may still be required. The County has obtained a grant to fund a water sampling study to prove to MDEQ that construction of this sewer is no longer necessary since the construction of the CSO basin. The total cost of the study is approximately \$290,000, of which approximately \$255,000 will be covered by the grant. As of June 30, 2007, the City has completed the project. It was determined by MDEQ that the sewer project, with an estimated cost of \$4 million, was not necessary.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 13 - Commitment (Continued)

2. MDEQ is requiring the City to have an alternate power source to power all five motors at the CSO basin. The City currently has sufficient power sources to power two of the motors. Wayne County and the City are working with MDEQ and the court to resolve this issue. If the City is required to have an alternate power source for all five motors, the additional annual operating cost to the Enterprise Fund is estimated at \$500,000.

Note 14 - Contributed Capital

The following is an analysis of contributed capital by source:

	Balance July 1, 2006	Current Year Additions and Adjustments	Balance June 30, 2007
Federal grants	\$ 14,038,663	\$ -	\$ 14,038,663
Other	168,179	-	168,179
Total	14,206,842	-	14,206,842
Depreciation charged to contributed capital	(1,092,214)	(280,773)	(1,372,987)
Net contributed capital	<u>\$ 13,114,628</u>	<u>\$ (280,773)</u>	<u>\$ 12,833,855</u>

Note 15 - Designated and Reserved Fund Balances/Retained Earnings

Fund balances and retained earnings have been reserved for the following purposes:

	General Fund	Trust and Agency Fund	Component Units
Reserved for prepaid expenditures	\$ 612,965	\$ -	\$ -
Reserved for noncurrent receivables	-	-	6,937
Reserved for pension benefits	49,156	39,965,638	-
Total	<u>\$ 662,121</u>	<u>\$39,965,638</u>	<u>\$ 6,937</u>

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2007

Note 16 - Construction Code Fees

The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall at July 1, 2006		\$ (547,581)
Current year building permit revenue		467,410
Related expenses:		
Direct costs	\$	251,762
Estimated indirect costs		<u>145,400</u>
Total construction code expenses		<u>397,162</u>
Cumulative shortfall at June 30, 2007		<u><u>\$ (477,333)</u></u>

Note 17 - Subsequent Events

Subsequent to year end, the City entered into an installment purchase agreement totaling \$201,000 to purchase a street sweeper. The agreement provides for interest at 5.03 percent interest and matures through November 2012.

Note 18 - Going Concern/Management's Plans

As a result of a significant unreserved, undesignated fund deficit in the General Fund, the City prepared a formal deficit reduction plan and submitted it to the State of Michigan Department of Treasury (State) in March 2007. The plan outlined the significant financial progress the City has made in recent years through substantial staff reductions, including some through early-out retirement incentives; sale of City property; and cost reductions through negotiations of open employment contracts. In July 2004, the City created a special assessment district for police and fire homeland security protection that will generate approximately \$1,200,000 annually. Beginning in fiscal year 2006, the City was granted a judgment levy for its pension contribution. This has resulted in additional revenues of approximately \$1,600,000 per year.

Note 18 - Going Concern/Management's Plans (Continued)

The City is in a unique situation compared to most communities in that it receives over 50 percent of its property tax revenues from two taxpayers and over 65 percent of its property taxes are based on personal property. Therefore, River Rouge does not experience the typical inflationary increase in property tax revenues.

Because of the City's property tax base limitations, potential reductions in property tax revenues of the City's largest taxpayer (see Note 12), cuts in state revenue sharing, dramatic cutbacks made on the expenditure side over the past year, and the fact that the City is at its debt maximum, it is not in a position to make significant progress in eliminating its cumulative deficit. The long-term plan is to continue to maintain a balanced operating budget and, when it qualifies, apply for emergency financial loans to reduce the cumulative deficit.

Additional Information

City of River Rouge, Michigan

Retirement System Required Supplementary Information Policemen and Firemen Retirement System Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/00	\$ 32,663,571	\$ 29,370,588	\$ (3,292,983)	111.2	\$ 3,094,560	(106.4)
06/30/01	33,089,914	30,007,692	(3,082,222)	110.3	3,250,571	(94.8)
06/30/02	31,644,156	35,068,838	3,424,682	90.2	2,801,663	122.2
06/30/03	29,384,527	36,177,859	6,793,332	81.2	2,652,137	256.1
06/30/04	27,881,044	37,097,954	9,216,910	75.2	2,855,741	322.8
06/30/05	26,459,552	40,678,801	14,219,249	65.0	2,710,785	524.5

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed During Applicable Year	Percentage Contributed By End of Subsequent Year **
2002	\$ 428,067	100	100
2003	387,491	100	100
2004	484,925	100	100
2005	793,154	24.14	100
2006	1,081,333	42.21	100
2007	1,259,487	15.52	N/A

** Beginning in 2005, contributions were not remitted by year end; however, amounts are paid in full with the proceeds of a judgment levy by the end of the subsequent fiscal year.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation date, is as follows:

Actuarial cost method	- Aggregate
Asset valuation method	- Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	- 7.5 percent
Projected salary increases *	- 4.7 percent to 8.5 percent
*Includes inflation at	- 4.5 percent
Cost of living adjustments	- None

City of River Rouge, Michigan

Retirement System Required Supplementary Information General Employees' Retirement System Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/00	\$ 16,111,076	\$ 20,918,580	\$ 4,807,504	77.0	\$ 1,786,409	269.1
06/30/01	16,009,970	20,666,344	4,656,374	77.5	1,814,229	256.7
06/30/02	15,194,970	21,228,089	6,033,119	71.6	1,862,030	324.0
06/30/03	13,989,089	21,197,113	7,208,024	66.0	1,898,470	379.7
06/30/04	13,347,221	21,253,637	7,906,416	62.8	1,803,584	438.4
06/30/05	11,769,369	21,216,171	9,446,802	55.5	1,850,005	510.6

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed During Applicable Year	Percentage Contributed By End of Subsequent Year **
2002	\$ 590,228	100	100
2003	624,012	100	100
2004	813,219	100	100
2005	878,622	8.43	100
2006	1,037,700	20.49	100
2007	1,279,969	7.17	N/A

** Beginning in 2005, contributions were not remitted by year end; however, amounts are paid in full with the proceeds of a judgment levy by the end of the subsequent fiscal year.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation date, is as follows:

Actuarial cost method	- Entry age
Amortization method	- Level dollar, closed
Remaining amortization period	- 19 years
Asset valuation method	- Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	- 7.50 percent
Projected salary increases*	- 5.7 percent to 9.5 percent
*Includes inflation at	- 5.5 percent
Cost of living adjustments	- None

City of River Rouge, Michigan

General Fund Schedule of Expenditures - Budget and Actual Year Ended June 30, 2007

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Budget	Actual	
General Government				
Legislative	\$ 51,125	\$ 49,500	\$ 49,500	\$ -
26th District Court	303,005	273,190	276,140	(2,950)
Executive	133,124	144,260	148,017	(3,757)
Elections	28,155	13,000	13,599	(599)
Assessment	88,468	80,640	91,396	(10,756)
City attorney and legal claims	1,104,914	775,250	1,109,518	(334,268)
City clerk and photostating	123,765	75,930	76,163	(233)
Accounting and finance	57,403	25,300	27,467	(2,167)
Personnel	98,781	110,690	110,987	(297)
City treasurer	104,813	126,070	120,370	5,700
Building and grounds	480,411	410,146	393,122	17,024
Total general government	2,573,964	2,083,976	2,416,279	(332,303)
Public Safety				
Police department	1,763,319	1,625,090	1,668,732	(43,642)
Fire department	974,633	1,367,615	1,509,128	(141,513)
Total public safety	2,737,952	2,992,705	3,177,860	(185,155)
Public Services				
Building department	270,067	229,949	251,762	(21,813)
Department of Public Works	306,605	353,008	411,067	(58,059)
Neighborhood improvement program	113,305	31,000	19,545	11,455
Senior center and city planner	132,525	110,321	98,881	11,440
Total public services	822,502	724,278	781,255	(56,977)
Street Lighting	250,332	250,000	248,516	1,484
Culture and Recreation	251,012	250,170	263,138	(12,968)
Other Functions				
General functions and other	269,286	294,000	291,551	2,449
Insurance	2,763,721	3,255,009	2,879,550	375,459
Pension programs	2,073,459	1,740,988	1,746,852	(5,864)
Direct employee fringe costs	256,057	250,000	222,955	27,045
Total other functions	5,362,523	5,539,997	5,140,908	399,089
Debt Service	428,733	425,830	430,798	(4,968)
Transfers to Other Funds	2,602	977	2,977	(2,000)
Transfers to Component Units	51,193	50,838	50,843	(5)
Total expenditures	<u>\$ 12,480,813</u>	<u>\$ 12,318,771</u>	<u>\$ 12,512,574</u>	<u>\$ (193,803)</u>

City of River Rouge, Michigan

	Major Highway	Local Highway
Assets		
Cash	\$ 9,342	\$ -
Receivables - Due from other governmental units	61,589	23,222
Real estate inventory	-	-
Total assets	<u>\$ 70,931</u>	<u>\$ 23,222</u>
Liabilities and Fund Balances (Deficit)		
Liabilities		
Vouchers payable	\$ 43,296	\$ 16,604
Due to other funds	-	6,618
Deferred revenue	-	-
Total liabilities	43,296	23,222
Fund Balances (Deficit) - Unreserved	<u>27,635</u>	<u>-</u>
Total liabilities and fund balances (deficit)	<u>\$ 70,931</u>	<u>\$ 23,222</u>

Special Revenue Funds
Combining Balance Sheet
June 30, 2007

Police and Fire

Special Assessment	Refuse	Drug Enforcement	Library	Grant Fund	Total
\$ -	\$ 1,061,343	\$ 245,485	\$ 147,050	\$ -	\$ 1,463,220
-	-	11,033	-	59,811	155,655
-	-	-	-	103,698	103,698
<u>\$ -</u>	<u>\$ 1,061,343</u>	<u>\$ 256,518</u>	<u>\$ 147,050</u>	<u>\$ 163,509</u>	<u>\$ 1,722,573</u>
\$ -	\$ 51,939	\$ 2,301	\$ 121,332	\$ 19,165	\$ 254,637
-	-	-	-	118,001	124,619
-	-	-	-	92,603	92,603
-	51,939	2,301	121,332	229,769	471,859
-	1,009,404	254,217	25,718	(66,260)	1,250,714
<u>\$ -</u>	<u>\$ 1,061,343</u>	<u>\$ 256,518</u>	<u>\$ 147,050</u>	<u>\$ 163,509</u>	<u>\$ 1,722,573</u>

City of River Rouge, Michigan

	Major Highway	Local Highway
Revenue		
Property taxes	\$ -	\$ -
Federal sources	-	-
State sources	398,808	141,419
Interest income	937	930
Other revenue	-	-
Total revenue	399,745	142,349
Expenditures		
Public safety	-	-
Refuse charges	-	-
Highway and streets	367,598	232,087
Drug enforcement	-	-
Library	-	-
Community development expenditures	-	-
Total expenditures	367,598	232,087
Excess of Revenue Over (Under) Expenditures	32,147	(89,738)
Other Financing Sources (Uses)		
Operating transfers in	-	44,955
Operating transfers out	(44,955)	-
Total other financing sources (uses)	(44,955)	44,955
Net Change in Fund Balances (Deficit)	(12,808)	(44,783)
Fund Balances (Deficit) - July 1, 2006	40,443	44,783
Fund Balances (Deficit) - June 30, 2007	<u>\$ 27,635</u>	<u>\$ -</u>

Special Revenue Funds
Combining Statement of Revenue,
Expenditures, and Changes in Fund Balances (Deficit)
Year Ended June 30, 2007

Police and Fire

Special Assessment	Refuse	Drug Enforcement	Library	Grant Fund	Total
\$ 1,185,872	\$ 1,014,854	\$ -	\$ 202,910	\$ -	\$ 2,403,636
-	-	68,096	-	520,415	588,511
-	-	-	-	-	540,227
-	40,014	9,910	6,456	-	58,247
-	-	42,398	35,546	93,942	171,886
<u>1,185,872</u>	<u>1,054,868</u>	<u>120,404</u>	<u>244,912</u>	<u>614,357</u>	<u>3,762,507</u>
1,185,872	-	-	-	-	1,185,872
-	904,170	-	-	-	904,170
-	-	-	-	-	599,685
-	-	111,159	-	-	111,159
-	-	-	252,341	-	252,341
-	-	-	-	550,757	550,757
<u>1,185,872</u>	<u>904,170</u>	<u>111,159</u>	<u>252,341</u>	<u>550,757</u>	<u>3,603,984</u>
-	150,698	9,245	(7,429)	63,600	158,523
-	-	-	-	2,977	47,932
-	-	-	-	(7,793)	(52,748)
-	-	-	-	(4,816)	(4,816)
-	150,698	9,245	(7,429)	58,784	153,707
-	858,706	244,972	33,147	(125,044)	1,097,007
<u>\$ -</u>	<u>\$ 1,009,404</u>	<u>\$ 254,217</u>	<u>\$ 25,718</u>	<u>\$ (66,260)</u>	<u>\$ 1,250,714</u>

City of River Rouge, Michigan

Trust and Agency Funds Combining Balance Sheet June 30, 2007

	Agency Fund - 26th District Court Division I	Trust Funds - Retirement Systems	Total
Assets			
Cash and cash equivalents	\$ 142,023	\$ 2,246,052	\$ 2,388,075
Marketable securities	-	37,926,131	37,926,131
Other receivables	-	27,245	27,245
Accrued interest receivable	-	71,803	71,803
Total assets	<u>\$ 142,023</u>	<u>\$ 40,271,231</u>	<u>\$ 40,413,254</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ 3,082	\$ 3,082
Due to broker for pending transactions	-	302,511	302,511
Due to other governmental units	23,174	-	23,174
Due to other funds	58,838	-	58,838
Deposits and other liabilities	60,011	-	60,011
Total liabilities	142,023	305,593	447,616
Fund Balances - Reserved for retirement funds	-	39,965,638	39,965,638
Total liabilities and fund balances	<u>\$ 142,023</u>	<u>\$ 40,271,231</u>	<u>\$ 40,413,254</u>

City of River Rouge, Michigan

Trust Funds Pension Retirement Systems Combining Balance Sheet June 30, 2007

	General Employees' Retirement System	Policemen and Firemen Retirement System	Total
Assets			
Cash and cash equivalents	\$ 460,629	\$ 1,785,423	\$ 2,246,052
Marketable securities	10,674,821	27,251,310	37,926,131
Other receivables	3,084	24,161	27,245
Accrued interest receivable	29,597	42,206	71,803
Total assets	<u>\$ 11,168,131</u>	<u>\$ 29,103,100</u>	<u>\$ 40,271,231</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ 3,082	\$ 3,082
Due to broker for pending transactions	-	302,511	302,511
Total liabilities	-	305,593	305,593
Fund Balances - Reserved for retirement funds	<u>11,168,131</u>	<u>28,797,507</u>	<u>39,965,638</u>
Total liabilities and fund balances	<u>\$ 11,168,131</u>	<u>\$ 29,103,100</u>	<u>\$ 40,271,231</u>

City of River Rouge, Michigan

Trust Funds - Pension Retirement Systems Combining Statement of Changes in Plan Net Assets Year Ended June 30, 2007

	General Employees' Retirement System	Policemen and Firemen Retirement System	Total
Additions			
Investment income:			
Interest and dividends	\$ 364,702	\$ 682,413	\$ 1,047,115
Net appreciation in fair value of investments	1,306,147	4,002,631	5,308,778
Other	3,883	-	3,883
Net investment income	1,674,732	4,685,044	6,359,776
Contributions:			
Employer	961,831	860,612	1,822,443
Employees	70,413	170,453	240,866
Total additions	2,706,976	5,716,109	8,423,085
Deductions			
Benefit payments	2,021,298	3,294,828	5,316,126
Administrative expenses	166,350	304,650	471,000
Total deductions	2,187,648	3,599,478	5,787,126
Net Change in Net Assets Held in Trust for Pension Benefits	519,328	2,116,631	2,635,959
Net Assets Held in Trust for Pension Benefits			
Beginning of year	10,648,803	26,680,876	37,329,679
End of year	<u>\$ 11,168,131</u>	<u>\$ 28,797,507</u>	<u>\$ 39,965,638</u>



**GREGORY
TERRELL
& COMPANY**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor
and Members of the City Council,
City of River Rouge, Michigan

We have audited the general purpose financial statements of the City of River Rouge, Michigan (the "City") as of and for the year ended June 30, 2007, and have issued our report thereon dated December 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit of the general purpose financial statements of the City for the year ended June 30, 2007, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's general purpose financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency or a combination of significant deficiencies that result in more than a remote likelihood that a material misstatement of the general purpose financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's general purpose financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Mayor, City Council, and the State of Michigan, Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.



GREGORY TERRELL & COMPANY
Certified Public Accountants

December 21, 2007